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FM AMEMBASSY SANTIAGO
TO RUEHC/SECSTATE WASHDC IMMEDIATE 4348
INFO RUEHQT/AMEMBASSY QUITO 2120
RUCNMR/MERCOSUR COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
RUEKJCS/SECDEF WASHDC
RUEAIIA/CIA WASHDC
RHEHNSC/NSC WASHDC

UNCLAS SANTIAGO 000094

STATE PLEASE PASS TO USTR KATE DUCKWORTH
STATE PLEASE PASS TO FEDERAL RESERVE TOM CONNORS
TREASURY FOR BLINDQUIST
COMMERCE FOR KMANN

SIPDIS

E.O. 12958: N/A
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SUBJECT: CHILE: ECONOMIC HIGHLIGHTS WEEK OF JANUARY 26

REFS: SANTIAGO 81 AND PREVIOUS

11. SUMMARY: This continues a series of updates on major developments in Chile's economy since the acceleration of global financial turmoil. By January 30, copper prices rose slightly, the Peso gained some ground against the Dollar, and the stock market closed higher. Retail sales dropped by 9% in December 2008 in the Santiago area. Investment projects worth \$17.2 billion were postponed or canceled. Industrial activity fell by 3.7% in December 12008. The annual unemployment rate for 2008 increased to 7.8%. The GOC announced a fiscal surplus for 2008 of \$9 billion. Bank profits were down by about 55.5% in December 2008. The Central Bank President said Chile's inflation is decreasing faster than expected, which will likely allow for further interest rate cuts in the future. END SUMMARY.

Copper Prices Rise Slightly

12. On the London Metals Exchange, copper closed at approximately \$1.41/pound on January 30, up slightly by about 2% from its close on January 23.

Chilean Peso Gains Some Ground Against Dollar

13. On January 30, the observed exchange rate closed at approximately 617 Chilean Pesos to 1 U.S. Dollar (a slight appreciation of 0.6% from the close on January 23).

Stock Market Ticks Up

14. The IPSA closed at 2553.62 on January 30, up 2% on the close of January 23.

Retail Sales Take A Tumble

15. The Chilean National Chamber of Commerce reported January 26 that retail sales in the Santiago area plunged 9% in December 2008 after the month before. This is the worst drop in retail sales in 10 years. For all of 2008, retail sales fell 1.9% compared to the year before. Experts forecast sales will take another hit in 2009, possibly decreasing by 2-3%. The global financial crisis is blamed for the downturn.

Investment Slows Dramatically

¶16. On January 26, the Corporation for Technological Development and Capital Goods (CBC) reported that \$17.2 billion worth of investment in Chile (26% of the total) for 2008-2012 had been postponed or cancelled due to the effects of the global economic downturn. The housing and mining sectors felt the brunt of this effect. This statistic was reinforced by Cencosud's announcement January 28 that it will indefinitely postpone construction on the Costanera Center (a mega-commercial complex) being built near the Embassy. Cencosud's project was worth an estimated \$600 million. There are no current estimates on when construction will resume.

Industrial Activity Falls

¶17. On January 30, the National Institute of Statistics (INE) issued a report showing industrial activity fell 3.7% in December 2008 compared to the year before. The contraction was greater than expected and due to a deceleration in internal and external demand. Mining production fell for the tenth time during the year, by 9.2% in December, as compared with the same month in 2007.

Annual Unemployment Increases

¶18. The INE also reported that the unemployment rate remained steady at 7.5% during October-December of 2008 (the same rate as September-November). However, it increased by 0.3% when compared with the same period of 2007. In addition, the annual unemployment rate for 2008 was 7.8%, an increase of 0.7% when compared with the rate for 2007.

GOC Runs Fiscal Surplus for 2008

¶19. The GOC announced January 30, that in 2008 it ran a fiscal surplus of approximately \$9 billion, equivalent to 5.2% of GDP. The surplus was due in large part to high copper prices during most of the year. By the end of 2008, Chile's sovereign wealth funds were valued at \$22.7 billion, with an estimated annual return of 7.6%.

Bank Profits Down

¶10. Chile's Superintendency of Banks reported that banks' profits were down in December 2008 by 55.5% from the month before (for a total of around \$65 million). The reduction in profits was blamed on fewer loans and increasing costs to cover credit during a period of global financial turmoil. The banking sector's profits for all of 2008 totaled about \$1.6 billion.

¶11. On January 23, Finance Minister Andres Velasco met with Chile's 10 leading banks asking them to ensure access to credit continues for Chilean customers. Net loans remained flat (at approximately \$111 billion) in November 2008 as compared with October 2008. The GOC has taken measures to maintain liquidity in Chile's financial markets. Banks claim consumer demand for credit is falling and that the supply of credit is not the problem. In addition, they are unwilling to reduce interest rates with the Central Bank's rate at 7.25%.

Inflation Falling Faster Than Expected

¶12. On January 28, Central Bank President Jose De Gregorio gave a press conference in which he said inflation was falling faster than expected. He reported Chile's inflation rate (7.1% in December 2008) would come close to converging with the Bank's target rate (3%) by the middle of 2009. De Gregorio said this left the Bank free to conduct expansionary monetary policy and thus further interest rate cuts were likely in the future.

SIMONS